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NIGERIA'S EXTERNAL DEBT PROBLEMS: A REVIEW OF MANAGEMENT EFFORTS AND THE PROSPECTS*

BY
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Abstract

This article provided the most recent information on efforts being made to reduce Nigeria's huge external debt burden. In order to evaluate such efforts, it discussed both theoretical and practical issues on the international management of the debt crisis. It was observed that the wide gulf between the debtor countries and the creditors, especially the commercial banks has been significantly bridged in the last three years. The article noted that while Nigeria has made commendable progress in reducing her debt burden, a lot more still needs to be done to make the efforts to have the desirable positive impact. More astute use of the emerging market-oriented options for debt reduction must be combined with vigorous efforts aimed at reducing external payments problems. The article concluded that current debt management efforts should be part of a medium/long term look at the national external borrowing strategies which should properly be integrated with the overall macroeconomic policy framework. It also emphasised the importance of accurate and up-to-date information for effective debt management and strategies.

Introduction

It is no exaggeration to claim that Nigeria's huge external debt burden is one of the hard knots of the Structural Adjustment Programme introduced in 1986 to put the economy on a sustainable path of recovery. The corollary of this statement is that if only the high level of debt service payments could be reduced significantly, Nigeria would be in a position to finance a larger volume of domestic investment which would enhance growth and employment. But, more often than not, a debtor has only limited room to manage a debt crisis to advantage. Yet, Nigeria's external debt outstanding was much less than $1.0 billion in 1977. By 1988, total debt outstanding was over $26.0 billion at a time when the total value of exports from which such debt is serviced had declined by over a half in real terms. Such huge external debt stock with the associated debt service has hampered economic growth and employment through principally putting a limit on imports which are critical for domestic productive activities. The emergence of the current international debt crisis in the early 1980s has been accompanied by intense debate on finding effective solutions to it. At the same time, Nigeria has made conscious efforts to reduce the external debt burden in order partly to restore external and internal equilibrium in the economy. While these efforts have provided some relief, the debt burden is still unbearable.

In the light of the above, it is very relevant to continue to review the national external debt management strategies particularly in the context of the rapidly changing international economic environment. In this connection, this article attempts to: (i) provide an up-to-date profile of Nigeria's external debt problem; (ii) evaluate the current approaches to the debt problem; and (iii) examine new options for debt reduction. Following this introduction, the article is organised into four main sections. Section I contains a description of the power structure of international debt management which will throw more light on the roles of various participants in the external debt game. Section II provides an up-to-date profile of Nigeria's external debt, while section III reviews the solutions which are currently being used to reduce the debt burden. Section IV also examines the other approaches which have been used by other indebted countries or are currently being put forward as workable proposals.

I. THE POWER STRUCTURE OF INTERNATIONAL DEBT MANAGEMENT

International debt management process is naturally focussed on creditor and debtor countries, while the multilateral financial institutions appear to stand in the middle. Each group is not as homogeneous as would be expected.

The **creditors** can be categorised by the types of loans they extended. Firstly, there are official creditors whose loans are provided or guaranteed by governments or official agencies (mostly in developed countries). International loan negotiations covered by this group of creditors are handled under the framework of the Paris Club. The Paris Club, made up mainly of the Organisation of Economic Co-operation and Development (OECD) countries, was set up in 1956 to deal with the Latin American debt problem, but has since expanded its scope to cover African and other debt negotiations. Under an informal setting, Paris Club meetings are chaired by a senior official of the French Treasury which also serves as the Club's secretariat. A debtor country that has a problem with its official debt first approaches the Paris Club which then evaluates the situation on an individual basis although the Club has over time adopted a common approach to ensure consistency in similar negotiations. One of the basic prerequisites for Paris Club negotiations to become effective is for the debtor country, which must be a member of the International Monetary Fund (IMF), to have in force a stabilization programme with the IMF. Secondly, commercial creditors are made up of international commercial banks mainly in Western Europe and North America. They extend their credits to governments or their agencies as well as to private enterprises. This group of creditors come under the framework of the London Club (Commercial Bank Advisory Committee) which has no formal secretariat. The Institute for International Finance in Washington, D.C. has since 1983 acted as the coordinator for commercial bank negotiations. Like the Paris Club, the London Club adopts a common approach in debt negotiations and one of the conditions for an agreement with the club is that debtor countries are required to have stabilization programmes with the IMF.

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The **Multilateral institutions** such as the IMF, the World Bank and UNCTAD constitute a special group of creditors. They combine their traditional roles of ensuring an orderly and stable international economic system with that of providing credit to needy member countries. In addition, they also play intermediary roles in the debt crisis and management although a good number of observers consider them as working mainly in the interest of the creditors. On the whole, these institutions perceive their intermediary roles as fostering the orderly development of the international financial system and encouraging faster growth of the world economy.

In pursuit of its central role of assisting member countries with balance of payments problems and promoting orderly exchange arrangements, the IMF perceives the debt problems of member countries which emerge from balance of payments problems as disruptive of the development of the international financial system and so attempts to cooperate with members to minimise such constraints. In its annual consultations with member countries, the IMF usually reviews the economic and financial situation and the prospects and renders appropriate advice especially on steps to avoid serious debt problems. For member countries that are in serious debt problems and decide to reschedule their debts, the IMF renders a lot of technical assistance involving the collection of data, analysis of their current economic situation and the prospects. As stated earlier, such countries must have stabilization programmes with the Fund and these usually demand wide consultations and cooperation.

The World Bank on its part is concerned mainly with long-term growth and reduction of poverty. Thus, the Bank is primarily concerned with the long-term implications of external debt problems for both the growth of the countries involved and the world economy as a whole. The Bank's main strategy is to assist members to return to stable growth and credit-worthiness. With its large loan portfolio to members, the Bank is also concerned with the ability of debtor countries to repay its loans which will in turn enhance its own ability to recycle resources. The Bank's assistance strategy in the external debt crisis has been succintly described by Bock (1988). Firstly, the Bank has given increased support for structural adjustment programmes mainly in the form of fast-disbursing policy-based operations. Secondly, it has intensified policy dialogue with a view to identifying relevant structural changes and the policy reforms needed. Thirdly, it has sustained investment financing with emphasis on rehabilitating and restructuring projects, enterprises, investment programmes and expanding productive capacity. Fourthly, it has sustained efforts to reduce poverty particularly by minimising the adverse impact of external debt burden and the adjustment process on the low-income groups. Finally, it has assisted in mobilizing support for commercial and official lenders.

The **debtors** are mainly from the developing countries which can be grouped into two according to the nature and severity of their debt crisis. The major group comprises the co-called highly-indebted countries (HICs) as identified under the original Baker Plan, as well as two other countries. The seventeen HICs consist of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Cote d'Ivoire, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, Yugoslavia, Costa Rica and Jamaica. The debts of these countries are owed mainly to the commercial banks. As of 1988, the total external debt outstanding of the HICs (excluding Costa Rica and Jamaica) amounted to US $477.4 billion with an average debt service ratio of 39.6 per cent. The other group of countries comprises the low-income African countries whose total external debt outstanding was estimated at US $68.0 billion in 1988 with an average debt service ratio of 27.0 per cent. The bulk of their external debt is owed to governments. Although the countries in the two groups are generally poor and faced with varied economic problems, the debt crisis of the first group dominates the international debt debate. The debt crisis of the low-income African countries is also serious given the high level of poverty in these countries and their bleak economic prospects.

To any casual observer, the international debt crisis appears inherently intractable. A closer study shows that the root cause of the complex debt negotiations lies in the power structure of international debt management which dictates the perceptions of the participants as to the origins of the crisis, the nature of the solutions being negotiated and the necessary adjustment required.

In this regard, if the contrasting viewpoints of creditors and debtor countries are placed in juxtaposition, an interested watcher of the international debt scene would begin to understand why progress on debt negotiations is often very slow. Notwithstanding the diversified interests of creditors, they appeared to rigidly share common perception of the origins of the debt crisis and the required adjustments expected from debtors and that posture had often contributed to tough debt negotiations. Broadly, the creditors attributed the origins of the debt crisis largely to poor economic management in the debtor countries. They often alleged that contracted loans were wasted by inefficient public enterprises, while overregulation did not provide the favourable environment for orderly economic growth of the indebted countries. The mainstream of creditors has insisted that debtor countries should pay their debts fully to avoid a threat to the international financial system. They also believe that debt relief to debtors might even hurt them more since this might cut them off from future borrowing from the world financial markets which would hinder their economic prospects. On the contrary, debtor countries usually downplay the poor management of their economies as a major factor in the emergence of the debt crisis, instead they emphasise the rise in world interest rates, the decline in commodity prices and the collapse of world trade which became prominent in the early 1980s as the main contributory factors. Furthermore, debtor countries also attribute the emergence of economic shocks to the macroeconomic policies of creditor countries, especially the U.S.A.

However, between 1982 when the debt crisis surfaced and now, considerable progress has been made to bridge the gap between the two sides. On the part of the creditors, there has been a gradual awareness that the precarious position of the debtor countries could only be adjusted at a slow pace mainly because of the difficulties facing adjustment programmes in these countries. In addition, the creditors, particularly the commercial banks, have become sensitive to the adverse effects of the debt problems on their balance sheets. The debtor countries, on the other hand, have realised that continuation of previous defective

policies would only exacerbate their debt problems and have adopted adjustment programmes with varying degrees of pain and political risks. The result of the emerging consensus has tended to favour the modest achievement of individual goals in the debt crisis.

II. THE PROFILE OF NIGERIA'S EXTERNAL DEBT PROBLEM

An objective appraisal of Nigeria's current and future approaches to her external debt problem must be predicated on a sufficient knowledge of its size, structure, trends and determinants, as well as the economic implications of these variables. However, such desirable economic analysis could be constrained by the deficient data base which is glaringly reflected in the published data of Nigeria's external debt in many sources. The analysis in this section is based largely on Nigerian official external debt data as periodically published by the Federal Ministry of Finance and Economic Development and the Central Bank of Nigeria. But where international comparisons are made, external debt data published by the World Bank are cited. It should be stated that the differences in the published data of Nigeria's external debt do not significantly alter the structure, trends and their impact during the period reviewed in the analysis.

The structure of Nigeria's external debt had changed significantly since the late 1970s. A breakdown of total external debt by source shows that over 90 per cent of total debt outstanding between 1971 and 1977 was on the average made up of official debt from bilateral and multilateral agencies (see Table 1). But starting from 1978 when Nigeria began to borrow from the international private capital markets, the magnitude of official debt has substantially declined while borrowing from private sources has increased tremendously. While the share of total debt outstanding from official sources moved from an average of 91.4 per cent between 1971 and 1977 to 33.3 per cent in 1978 – 1980 and 13.8 per cent in 1981 –1987, that of private agencies moved from a negligible proportion in 1971 – 1977 to 57.6 per cent in 1978 – 1980 and 82.0 per cent in 1981 – 1987. The structure of the debt owed to private sources has itself changed since 1982 with the emergence of the trade arrears. Before 1982, private borrowing came solely from the international capital market, whereas trade arrears (refinanced and unrefinanced) had since then constituted a significant proportion of debt to private agencies. As of 1988, the bulk of Nigeria's total external debt outstanding amounting to 85.7 per cent was owed to private sources, while only 10 per cent was accounted for by official sources. The implication of this lopsided structure is that Nigeria's debt burden has increased over time since borrowing from private sources is usually on stiffer terms with regard to the maturity and interest rate, whereas borrowing from official sources is generally at concessional terms. The structure of the external debt by source could largely determine the term structure which is also a good indicator of the debt burden. Up to 1981, the total debt outstanding was made up wholly of medium/long-term loans maturing from three years and above. Again due to the emergence of the trade arrears which are short term debt unless refinanced, the share of short-term debt climbed from 22.5 per cent in 1982 to 37.4 and 35 per cent in 1984 and 1985, respectively. But as the trade arrears were refinanced under the rescheduling arrangements, the share of short term debt in the debt profile declined to only 12.9 per cent in 1988. Consequently, the massive pressure usually produced on a country immersed in short-term debt have been minimised since 1987.

As shown in Table 1, Nigeria's total external debt outstanding has grown astronomically since 1978. Before then, the debt outstanding grew very moderately. Between 1971 and 1977, for instance, total external debt outstanding increased on the average by 15.4 per cent per annum, moving from a level of only ₦214.5 million in 1971 to ₦496.9 million in 1977. The first big jump occurred in 1978 following the two Jumbo loans amounting to nearly ₦2.0 billion, resulting in an increase of 154.7 per cent in total debt outstanding to ₦1,265.7 million in that year compared with the annual average of only ₦328.4 million between 1971 and 1977. The next dramatic change took place in 1982 when total debt outstanding increased by 278.3 per cent to ₦8,819.4 million. In fact, this marked the beginning of the international economic and debt crisis. Total external debt outstanding increased by 139.7 and 143.1 per cent in 1986 and 1987 respectively, which was largely the consequence of the Structural Adjustment Programme which witnessed a continuous depreciation of the naira exchange rate and greater documentation of previous debts. On the whole, the total external debt outstanding increased at an average of 81.2 per cent per annum between 1978 and 1988, a growth rate that was five times that of the period 1971 – 1977.

Despite the rapid growth in Nigeria's total external debt outstanding in the review period, it is still relevant to ascertain whether the absolute level of external debt was a source of great concern. In other words, how grave was the external debt problem? Here again, we face a technical problem because there is no standard measurement of whether a particular level of external debt is too high or is acceptable. The judgement, apart from being a little arbitrary, has to be made in the context of a country's economic position. The commonly used external debt indicators are presented in Table 2 for the period 1971 – 1988. The six indicators computed show clearly that Nigeria's external debt problem deteriorated rapidly in the early 1980s and can currently be described as serious and disturbing. The first indicator is the Debt/GDP ratio which measures that portion of national output that is potentially due to foreign economic agents. This ratio rose from under 2 per cent a year between 1971 and 1977 to 14.9 per cent in 1983, 21.9 per cent in 1985 and 97.8 per cent in 1988. If in 1988 foreign creditors wanted all their money, we would, if possible, have sold or exchanged all but 2.2 per cent of what we produced for settlement. This is by any standard a serious situation. The second ratio is the Debt/Exports ratio which measures how much of our export earnings can be used to liquidate the total debt outstanding. This ratio moved from an average of 7.6 per cent in 1971 – 1977 to 101.1 per cent in 1982 and 404.2 per cent in 1988. In other words, if we exported goods and services at the level we did in 1988, we would spend at least four years before the total debt could be liquidated. Where a debt significantly circumscribes current and future actions, it is clearly serious. Thirdly, there is the popular Debt Service ratio which measures the proportion

of export earnings that is used to service the external debt in terms of principal repayment and interest. This is a more realistic measure because debt normally matures over an extended period. The ratio moved from an average of only 0.7 per cent in 1971 – 1977 to 8.8 per cent in 1982, 31.7 per cent in 1985 and 24.2 per cent in 1988. Thus, over the period, more and more of export earnings were used to service debt, leaving a lower proportion for other uses. The ratio in 1986 and 1988 was understated because of the non-payment of a portion of debt service due. In actual fact, the debt service ratio between 1986 and 1988 could have averaged 36.1 per cent as against the 21.4 per cent recorded. That position was also uncomfortable. The fourth ratio is interest/Exports ratio which measures the proportion of export earnings used to pay interest on debt. The ratio increased gradually from an average of 0.4 per cent in 1971 – 1977 to 5.2 and 15.5 per cent in 1982 and 1988, respectively. Thus, if the principal was not repaid but refinanced and rolled over, an increasing portion of our export earnings would have been devoted to interest payment. The fifth ratio is the Reserves/Debt ratio which measures the extent to which the nation's external reserves cover the external debt. The ratio declined from the comfortable average level of 588.1 per cent in 1971 – 1977 to 11.6 per cent in 1982 and only 2.4 per cent in 1988. Thus, while Nigeria had external reserve levels that were multiples of the debt outstanding before 1978, the position deteriorated seriously from 1982 when the external reserve levels could only cover an insignificant portion of total debt. Finally, the Reserves/Imports ratio, which computes the number of months' imports the external reserves could cover, indicates the level of pressures on the external sector which could be linked with escalating debt problems. While in 1971 – 1977, Nigeria's external reserves could cover eight months of imports at any time, the period of cover was reduced to less than 2 months in 1988. A large part of export earnings was being used to service external debt and since exports had declined drastically, external reserves were precariously depleted.

Since Nigeria's external debt problem caught the attention of the international financial community in the last few years, an additional approach to evaluating the problem is to consider it in relation to the global problem especially in the context of the developing countries. For Nigeria, this could be examined from the angles of all the developing countries, Sub-Saharan Africa and the highly-indebted countries (HICs). As gauged by the level of debt outstanding at the end of 1988, Nigeria was more externally indebted than the average developing country. Nigeria's total external debt outstanding of about US $30.5 billion in 1988 accounted for 2.3 per cent of the total debt outstanding of all the developing countries as a group. However, based on per capita income levels, Nigeria would be in the upper segment of the group of developing countries. Similarly, Nigeria's debt outstanding was significantly higher than that of the average country in Sub-Saharan Africa. Nigeria, in fact, has the largest debt outstanding in the region. But Nigeria's economic situation, particularly the potential for growth makes her debt status more bearable than the Sub-group of Low-Income Africa within Sub-Saharan Africa. In this sub-group, export earnings have tended to decline in the midst of falling living standards and negligible growth which make the debt burden disturbing. Nigeria's external debt problem should be properly considered within the HICs among which it is classified. As of 1988, Nigeria had the fifth largest debt outstanding in this group and was exceeded only by debt levels in Brazil, Mexico, Argentina and Venezuela in that order (See Table 3). But, whereas Nigeria accounted for only 5.8 per cent of total debt outstanding among the HICs in 1988, the largest four indebted countries accounted for an average of 15.2 per cent of debt outstanding in the HICs. Indeed, Nigeria's share of debt in this group could be considered small when compared with those of Brazil (22.7%), Mexico (20.3%) and Argentina (11.3%). Perhaps what makes Nigeria's external debt problem significant within the group is its poor economic performance since 1982. In the period 1982 – 1988, average growth rate of GDP in the group was 2.6 per cent while Nigeria's GDP fell by an average of 0.3 per cent a year. Total exports grew by 2.1 per cent a year in Nigeria, while it grew by 2.9 per cent in the group. Total imports declined by 20.6 per cent a year in Nigeria while it recorded a fall of only 3.4 per cent in the group. These trends have affected growth in investment and per capita consumption more adversely in Nigeria than in the group.

For completeness of the overview of the nature and extent of Nigeria's external debt, it is relevant to review the causes and consequences for the economy. The causes and origins of the external debt problem have been traced to external and domestic economic factors, although there can be no perfect distinction between the two groups of factors (Wiesner, 1985 and Sanusi, 1988). The two most prominent external factors were the liberal lending behaviour of the international commercial banks of which Nigeria was a major victim and the immediate environment of 1982. The rapid world economic growth of the 1970s combined with low interest rates and high export growth, as well as the belief that "countries never go bankrupt", prompted the banks to increase their lending particularly as a lot of the resources of the oil boom had to be recycled without the least concern for the risk of such actions. There appeared at the time to be less concern for the quality of economic management and the ability of debtor countries to generate repayment resources from internal sources rather than from new loans. Of course, the behaviour of the lending banks could only have been complemented by the inappropriate actions in domestic economies. This was critical in the Nigerian situation. Subsequent adverse world economic developments like the rise in interest rates, and the world recession only helped to accelerate the emergence of more serious debt crisis rather than originate it. Ultimately, the fundamental causes of the Nigerian external debt crisis must be traced to the domestic economy. Even in a situation where an external economic development could be a critical factor in the domestic economy, there should be an adjustment to the external shock. Looking through the management of the Nigerian economy from the early 1970s, there was no evidence of domestic adjustment to observed developments. In the first place, the factor of over-dependence on petroleum as the main source of export earnings was maintained for too long without any adjustment reaction. Worse still, there was no relevant adjustment to the oil boom sparked off by developments in 1973/74 and

1978/80. Economic management tended to favour rapid expansion whose sustainability was never questioned critically. This strategy resulted in a high level of external debt which could not be supported by the rapid downturn in the early 1980s. Inappropriate fiscal, monetary and external debt policies were the main elements of the poor domestic economic management which escalated the Nigerian external debt problem. The expansionary fiscal; monetary as well as inappropriate exchange rate and pricing policies which were pursued during the period resulted in various forms of economic distortions like domestic inflation, over-valuation of the exchange rate, capital flight, wrong alignment of relative prices, excessive importation and lack of incentives to produce for export all of which tended to reduce the domestic capacity to service the rising levels of external borrowing. These rising levels of external borrowing a lot of which consisted of short/medium term loans with amortization falling due before project completion, were not always judiciously applied. Not only did many government agencies borrow indiscriminately from abroad, but also the use of the loans was not adequately monitored. The consequence of this faulty external debt policy was the lack of regular income to service disbursed external loans.

That the period of external debt crisis in Nigeria has been associated with little or no economic growth is very clear. It is probably correct to state that the source of growth stagnation could be traced to the period of economic distortions of the 1970s. But once the debt crisis reached a climax, it helped to exacerbate the deteriorating economic situation. This happened in the Nigerian situation because of the adverse effect of the debt burden on the external sector and inflation both of which could potentially retard growth. As debt service payments significantly exceeded capital inflow, there was a shortfall in the resources for domestic investment. Put in another way, increased debt burden in the Nigerian context was partly transmitted into balance of payments problems which were generally stemmed by a drastic reduction in imports. As has been clearly obvious, the fall in the importation of capital goods and raw materials has reduced the tempo of implementation and initiation of various development projects. This process has also resulted in slow growth in domestic output especially in the agricultural, industrial and service sectors. The inadequate growth in the volume of domestic goods and services has also generated a lot of inflationary pressures which stunted growth further and prevented planning for increased output. By the same token, the external debt problem could be linked with the serious unemployment problem in the country. Even the protracted negotiations to reschedule and restructure external debt obligations could be wasteful of vital human resources which could have been utilised for directly productive activities.

III. NIGERIA'S CURRENT EXTERNAL DEBT MANAGEMENT STRATEGIES

The analysis of Nigeria's external debt profile undertaken in Part II shows clearly that Nigeria currently has a huge debt burden which could disrupt economic growth and stability. At any point since the debt crisis emerged, Nigeria could have adopted any or a combination of at least four options to ameliorate the debt problem. Firstly, there was the possibility of repudiating part or all of the debt. Debt repudiation is a unilateral action involving a refusal to settle due obligations. This is not a viable option for Nigeria even if undertaken within a group action. Nigeria has generally not adopted such extremely radical approach to international economic issues. Debt repudiation is obviously a calculated risk implying that a country undertaking it would find it extremely difficult to interact with the rest of the world economy because of the large influence of the industrialised countries which are mainly the creditors. Retaliation by these countries which could involve the seizure of Nigeria's external assets is most likely to increase short-run economic problems, while any further reaction from debtors could not be sustained. Secondly, Nigeria could have benefitted from debt cancellation by creditors. In fact, this is another extreme position opposite to debt repudiation. This is not also a natural occurrence in the case of Nigeria. Apart from the fact that creditors have usually frowned at such suggestion, it may also limit or cut off capital flow to the beneficiary in future because of the in-built risk of such flows. Partial debt cancellation has been done to favour the low-income countries in sub-saharan Africa. But Nigeria is classified as a middle-income country and except for her current economic problems which are regarded as temporary she is generally regarded potentially capable to pay her external debt obligations. However, Nigeria has recently enjoyed some debt cancellation by a few creditors, but this is such a negligible proportion of total debt outstanding. Thirdly, Nigeria might attempt to pay in full all debt obligations as they fall due. In the absence of recent debt management strategies such as debt refinancing/rescheduling and the debt conversion scheme, attempting to pay all debt obligations due would have jeopardized Nigeria's growth prospects especially as her total export earnings have not increased significantly to reduce the adverse impact of such an approach. This conclusion is borne out by the principal debt indicators analysed in Part II. Fourthly, Nigeria could have negotiated for debt relief and/or debt reduction. This option would have resulted in lower debt service payments than would have been possible without negotiations. In the event, more of her foreign exchange earnings would be available to service other sectors of the economy. This is the option which Nigeria has pursued vigorously in the last five years.

On the whole, Nigeria has so far used four main instruments of debt relief and reduction. Two of these could be disposed off quickly. The first was the embargo placed on external borrowing since the early 1980s except in cases where it is absolutely necessary or it is specifically tied to a project whose viability can be reasonably guaranteed. In fact, the Federal Government had taken specific steps to bring order to the external borrowing process in the public sector, especially by the state governments and government parastatals. The second was the limit placed on debt service payments. In the 1986 Budget, the Federal Government had pegged the debt service burden for 1986 at a level not exceeding 30 per cent of foreign exchange earnings. However, this was not supposed to be a unilateral moratorium on debt service payments but a target thought to be feasible under the current loan rescheduling and other negotiations with the external creditors. However, in terms of viability,

the two major instruments of external debt management are debt refinancing/rescheduling with debt conversion which are examined in detail below.

Debt Refinancing/Rescheduling

Debt refinancing involves a new medium-term loan in the amount of the debt that is due which is now repaid with the proceeds of the new loan, while debt rescheduling involves a rearrangement of the repayment terms of an original loan. A rescheduling usually covers repayments (principal or principal and interest) falling due in a particular period, usually one year. The rescheduling exercise does not only postpone the debt repayment, but spreads it over a number of years with an initial period of grace. The debtor country will however continue to pay interest on the debt outstanding until fully repaid. Debt refinancing/rescheduling becomes necessary when a country faces a temporary foreign exchange constraint or a fundamental economic imbalance. In the former case, the rescheduled debt will give the debtor country some breathing space during which the temporary balance of payments problem could be eliminated. In the latter situation, debt rescheduling reduces the debtor's debt burden and gives room for proper adjustment to be undertaken to redress the basic balance of payments disequilibrium. This has been the basis for requiring debtor countries requesting for debt negotiations to adopt adjustment programmes supported by the IMF. Most rescheduling exercises are undertaken multilaterally in the first instance with the Paris and London Clubs, and thereafter bilaterally between individual creditors and debtors.

The refinancing/rescheduling programme for Nigeria's external debt was first implemented in 1983. In July and September 1983, refinancing agreements on confirmed letters of credit, amounting to $2,112.0 million were reached and these involved a repayment for three years including a grace period of six months at an interest rate of 1¼ per cent above LIBOR. These claims were fully repaid in 1986. Following this successful exercise, agreements were reached to refinance trade arrears arising from bills for collection, open account transactions and unconfirmed letters of credit by the issuance of promissory note of six-year maturity, with a grace period 2½ years. The total value of notes issued was $3,834.4 million at an interest rate of 1.0 per cent above LIBOR while the redemption was to begin in October 1986 on a quarterly basis. However, because Nigeria was unable to redeem the notes on due dates, the principal was refinanced while the interest due was capitalised. The principal and interest capitalised amounted to $4.8 billion which was rescheduled in January 1988 over a repayment period of 22 years including a grace period of two years. Promissory notes worth $841.2 million were verified and accepted in respect of the insured creditors, but no refinancing agreement was reached. However, they accepted the payment of interest on such claims.

Efforts to reschedule debts under the auspices of the London and Paris Clubs have been geared up since 1986. In 1987, rescheduling involving medium/long term debt amounting to $1.6 billion falling due to the London Club for 1986 and 1987 was undertaken and it involved repayment over the period 1986 – 1996 with a grace period of 4 years. Under the same agreement, letters of credit due in 1986 and 1987 valued at $2.4 billion were rescheduled for repayment between 1987 and 1990 with a grace period of one year with interest payment at a rate of 1¼ per cent above LIBOR. Under the aegis of the Paris Club of official creditors, agreement was reached to reschedule a total of $6.3 billion which was principal and interest due between October 1986 and December 1987. Other short term claims up to December 1983 were also to be covered by the agreement. Terms were to be negotiated bilaterally.

In 1988, another round of rescheduling involving $5.9 billion being claims of the London Club took place. The amount consisted of $2.5 billion letters of credit arrears originally rescheduled for 4 years under the 1987 agreement, $600 million representing interest charges and commission payable on letters of Credit, $1.7 billion medium/long term debt originally rescheduled in 1987, as well as new maturities for 1988 amounting to $1.2 billion. While the letters of credit were made repayable over 12 years, the conventional loans were to be repaid in 20 years with 3 years of grace.

Rescheduling agreements with the London Club for 1989 were signed in March and made operational from June 14. The agreements provided for (i) repayment between 1989 and 1991 of payable debt of $500 million (ii) repayment between 1992 and 2003 of refinanced letters of credits of $2.4 billion (iii) repayment between 1992 and 2008 of medium/long term debt amounting to $2.8 billion (iv) interest rates of 13/16 and 7/8 per cent above LIBOR on refinancing and restructuring amendment agreements, respectively, while payable debt is non-interest bearing if there is no default (v) a menu of options to provide further relief such as the conversion of payable debt into interest bearing Naira denominated securities with a coupon rate of 13¼ per cent and maturity of 18 months, conversion of other bank debts into a Nigerian Investment Bond with a grace period of 10 years, a repayment period also of 10 years, and interest of 6 per cent flat; and amendment of Guidelines on Debt Conversion to make bank debt eligible for conversion under the programme.

The agreement with the Paris Club for 1989 (signed early in March) provided for: (i) rescheduling of 60 per cent of arrears of short term trade debts due on December 31 1990 (ii) rescheduling of all post September 1986 maturities amounting to $110.03 million for repayment between June 30, 1989 and December 31, 1994 (iii) rescheduling of all arrears of medium/long term maturities for repayment between February 28, 1995 and August 31, 1999 (iv) completion of all bilateral agreements before September 30, 1989.

With the favourable terms and concessions Nigeria won from the debt refinancing/rescheduling efforts, short term relief from severe debt burden has been secured and this has enabled the thin foreign exchange resources to be spread over other essential areas. However, there are certain fundamental factors which make the exercise at best a temporary rather than a long term solution to the external debt problem. First of all, there is the fact that the exercise does not reduce the debt but pushes it to the future at higher cost because of the tendency for interest rates to rise. Secondly, the restructuring programme has not earned the so-called "new money" packages. Creditors are eager to

recover the debts but not to lend new money a development which has resulted in debtor countries like Nigeria experiencing net capital outflows which obviously constrain the implementation of adjustment programmes. Thirdly, the refinancing/rescheduling negotiations become so complex, protracted and costly to the debtor. This is partly because the negotiations are initially carried out with a group of creditors before bilateral agreements are entered into, particularly under the Paris Club rescheduling programme. In addition, negotiations become necessary almost continuously because of the inability of debtors to comply with repayment schedules. For these reasons, Nigeria started to explore other debt relief and reduction strategies alongside the refinancing and rescheduling negotiations. Debt conversion became the obvious candidate.

Debt Conversion:

(a) The Concept

Debt conversion has emerged in recent years as a potent instrument of debt reduction which could in a way substitute for new money because it promotes new domestic investment which is a vital aspect of the adjustment process. Debt conversion simply involves the exchange of a debtor country's external debt for a domestic debt in local currency or equity participation in a local development project. Since this technique emerged, several types have been applied. The most common is debt for equity conversion which involves the exchange of a country's external debt denominated in foreign currency for local currency which may be utilised to set up new enterprises or purchase equity shares in existing enterprises which have been designated for that purpose. There could also be a debt for debt conversion which is an exchange of the external debt for domestic debt which may be sold for cash in the secondary market. Thirdly, there is debt for cash conversion which entails the exchange of external debt for local currency which can be used for local working capital, loan repayments and local tax payments. Fourthly, there is debt for exports conversion which is an exchange of a country's exports for cash in foreign currency and part of its external debt. Finally, there is debt for nature conversion which involves the exchange of external debt for local currency which can be used to finance projects which are designed to conserve the environment.

Most debt conversion exercises involve three groups of participants as well as the existence of a secondary financial market. For example, in a typical debt-equity swap, the main participants are the banks, the investors and the debtor countries all bound together by the debtor country's indebtedness and a secondary market where external debt is traded at a discount. The banks hold the external debt papers which they may wish to get rid of to strengthen their financial position through, for instance, eliminating bad loans, reduce their current credit exposure as a means of avoiding future involvement in risky credit exposure, as well as out of sheer preference sell the discounted debt paper whose proceeds can be reinvested rather than hold it when its repayment prospects are uncertain. The investors are those companies which want to invest in the indebted countries through the purchase of their external debt in the secondary market. Their greatest incentive for doing this is the discount they can obtain on such debt purchase which when redeemed earns them larger amounts of local currency at the prevailing exchange rate. However, such inventives can be discounted by a possible restriction on future repatriation of profit and capital and enterprises in which such investment can be undertaken. For many companies, the terms under the debt-equity swaps appear more direct and realisable than in regular direct foreign investment transactions. The debtor countries of course favour the debt-equity swaps because they not only reduce the levels of favourable environment for economic growth.

From the point of view of all the participants, debt-equity swaps are worthwhile. Looking at them from the specific angle of a debtor country, it has the following advantages. Firstly, it reduces the level of their external debt without undergoing the strains which would have been the case if the debtor country were to obtain the physical foreign currency for repayment. Closely linked with this advantage is that the reduced debt service payment put the debtor country in a better economic position which may enhance its ability to attract new money for new development projects. Secondly, if the new inflow of foreign investment is properly directed, the results could be favourable for the expansion of export industries which can further enhance future capability to service the remaining external debt. Thirdly, increased flow of foreign investment will likely be accompanied by new technologies. Fourthly, debt conversion has provided incentives for the repatriation of flight capital, particularly foreign exchange held abroad by the nationals of the debtor country involved. Fifthly, debt conversion is usually made to generate revenue for the government at the time of transaction while future profitable investments from the transaction can be taxed by the government. All these advantages can generally be equated to an increased level of economic activities and employment opportunities arising from debt-conversion. But whether the advantages will be reaped by a particular country depends on the nature and implementation of its debt conversion programme.

The mechanism of a debt conversion transaction is very simple. If an international company is interested in investing in Nigeria which is operating a debt conversion scheme to reduce its debt, it can approach a bank that holds Nigeria's debt paper or go into the secondary market directly to purchase Nigeria's debt at a discount. Before Nigeria set up the debt conversion scheme, the promissory notes issued by her on account of short term debts were selling at discounts of 66 – 72 per cent. This meant that a dollar of the promissory note was being traded for 28 – 34 cents. If the international company obtains a discount of 70 per cent, it would pay $30 for the $100 promissory note it is purchasing. The $100 note is now presented to the Central Bank of Nigeria which will redeem it in local currency under its debt conversion programme. The Central Bank of Nigeria may not pay the face value of this note, but it will certainly be higher than the secondary market value. If CBN discounts it at 10 per cent, the international company will obtain the equivalent of $90 in local currency at the current exchange rate to finance its local investment as stipulated by CBN. If the current exchange rate is $1.00 =

₦7.00, the international company obtains from the CBN ₦630.00, which is substantially higher than the ₦210 which it would have obtained from its initial expenditure of $30 assuming there was no debt conversion transaction.

(b) **Nigeria's Debt Conversion Programme**

In February 1988, Nigeria established a Debt Conversion Committee (DCC) to prepare a Debt Conversion Programme (DCP) to enable her derive some of the benefits of debt conversion outlined above, i.e., external debt reduction to alleviate the debt burden, stimulation of foreign investment inflow, encourage repatriation of flight capital and to promote exports. The Debt Conversion Programme (DCP) was formally initiated in July 1988 when the guidelines for its implemention were issued. As of June 1989, a year after its inauguration, considerable interest has been shown in the programme which demonstrates that it could be a viable means of debt reduction and it also reflects a lot of confidence in the Nigerian economy. During the period, a total of 135 applications amounting to $438.9 million were received for conversion. In the 6 auctions conducted, 51 applicants were fully successful while 3 were partially successful. Total amount redeemed was $160.7 million while the discounted value was $88.6 million indicating an average discount of 44.8 per cent. The discounted redeemed value in Naira was ₦569.0 million implying an average exchange rate of $1.00 = ₦6.421. The bulk of debt converted has been earmarked for agricultural and manufacturing projects. Out of the 54 successful applications, the shares of manufacturing and agro-allied sectors were 48.1 and 40.7 per cent respectively while the remaining applications were on account of hotel and tourism, exploration and mining and cash gifts and grants. Similarly, manufacturing and agro-allied enterprises took 49.6 and 35.5 per cent, respectively of the total naira value of converted debt, while the other three sectors shared the balance of 14.9 per cent.

Much as debt conversion is a useful means of debt reduction, there are several constraints which ultimately make it less effective than is expected. Firstly, the pace of implementation could slow down after the initial impetus because further progress comes to be related with critical issues like the progress of adjustment in the country involved, its economic prospects generally and the investment climate in particular. For a country that has not been able to attract enough foreign investment in normal circumstances in the past, it is extremely tough to reverse the situation so quickly by debt conversion incentives. The large potential of the Nigerian economy and the fairly successful implementation of the structural adjustment policies since 1986 could make an expanded scope of the debt conversion programme more relevant in the future. Secondly, there has been a reluctance on the part of some creditors to drop the debt assets from their balance sheets and absorb the loss largely due to legal constraints. In the US for instance, there is the likelihood that creditors that wish to sell their loan papers at a discount in the secondary market may be required to apply the same rule to adjust the value of similar assets remaining in their portfolios. This legal constraint could be removed gradually since many creditors especially in the US have begun to set aside reserves against their problem international loans, indicating that these loans are actually worth less than their nominal values and therefore a possibility that they could in future sell more loan papers which could be converted. Thirdly, debt conversion schemes could be constrained by complex issues of the sovereignty of the countries wishing to undertake debt conversion exercises. The general public become rather emotional about foreign domination which is a possibility in such a policy measure. However, a country cannot simply adopt a debt conversion programme as a desperate action. It should be properly planned and made consistent with current domestic policies. To this end, the rules and regulations as spelt out in the guidelines on DCP in Nigeria stipulate the eligible foreign debt for conversion, transaction categories, participants and income remittance.

Fourthly, the debt conversion process could be counterproductive to current monetary and fiscal policies which normally requires a lot of caution to be taken in implementing the programme. For instance, in debt-equity swaps, the possibility of rapid monetary expansion could be a source of inflationary pressures. This is because the financing of the conversion transaction through the banking system particularly in Central Bank results in a corresponding increase in money supply which could worsen the inflationary pressure in the short run. There is also the possibility that the transactions could over a period increase interest rates which could be a source of increased production costs and prices. The magnitude of these effects would also depend on the size of the financial markets which are typically narrow in the developing countries. Consequently, the likely effect of debt conversion on monetary aggregates and the macroeconomy would place a serious limit on the volume of debt conversion that can be embarked upon in a given period. The Nigerian DCP has taken precautions against these possible occurrencies by ensuring that the volume of debt conversion is within the permissible monetary and credit targets, as well as directing equity or new investment into the directly productive sectors. In fact, the implementation ensures that fund release for the execution of projects is phased out to minimise the short run impact on the price level. The long-run effect would be positive as long as such investments are profitable.

IV. OTHER APPROACHES TO EXTERNAL DEBT REDUCTION

Since the international debt crisis became pronounced in 1982, approaches to resolving the crisis have moved from a set of what could be called the traditional types to the current ones which emphasize the choice from a "menu" of options. There has also been an avalanche of proposals which underpin the interrelationship of all the economies suggesting that if the international debt crisis is not resolved, the international economy would suffer in contrast to the belief that the debt problem is an issue between the creditors and the debtors. We shall briefly review the possibilities and prospects of these new approaches in the following subsections.

The Traditonal Instruments

The traditonal instruments of external debt management could be said to have aimed mainly at providing relief to the indebted country particularly where the burden of debt,

like in Nigeria's case was very heavy. This was the basis of the rescheduling/refinancing agreements discussed earlier. Under such agreements, various techniques could be applied. For instance in the Nigerian case, the techniques of currency denomination and interest rate options were applied. Essentially currency redenomination could allow a debtor country to diversify the currency of its debt to other currencies with lower interest rates which could reduce debt service payments. The interest rate option allows the use of an interest base such as LIBOR to which a spread is added. This may lower financing and intermediation costs as well as reduce the risks of future increases in market interest rates.

Other traditional techniques of debt management include interest retiming, onlending and relending, new trade credit facilities, cofinancing and debt conversion. Except for the debt conversion described earlier, Nigeria has not made use of these techniques. Interest retiming implies an extension of the interval between interest payments which permits a debtor country to postpone one or more interest payments. On lending permits the proceeds of a new loan to be transferred to a new debtor who then assumes the repayment by the original borrower, while relending involves lending repaid proceeds of an outstanding debt to another borrower in the same country. These two techniques usually involve a shift of exposure from public to private sector which tends to reduce the credit risks. The technique of new trade credit facility also allows creditor banks to extend new money to private sector agents for trade transactions. In cofinancing arrangements, creditor banks link their loans to lending from multilateral development institutions like the World Bank which are usually responsible for project appraisal, supervision of implementation and loan administration. The debt conversion which Nigeria is currently exploring is still limited in scope and the potential for debt reduction could be extensive in future. This is the more likely as the secondary market transactions such as debt swaps among banks and outright sales of debt expand.

The Menu Approach

The so-called "menu" approach simply expands the available options under rescheduling and new money agreements as used traditionally, thus providing a lot of incentive for both creditor banks and debtor countries. Out of the numerous new options, four can be briefly reviewed. The first of these is securitization which involves the exchange of debt for more tradable financial instruments, thereby allowing the creditor banks to restructure their portfolios. Securitization could be done by the issue of securities to refinance existing debt, while creditor banks or their agents can also issue securities backed by existing loans. Nigeria applied a limited version of this technique in 1983 when the trade debt was converted into promissory notes. Another new option is interest capitalisation which is aimed at reducing interest service directly by adding interest payments due to the loan outstanding. The technique has been rarely used so far because it is an extreme case in which postponement of interest payment makes a lot of difference to a debtor country. This is probably so in the case of low-income countries. A third option is the alternative participation instrument or more simply "exit bonds". This technique was devised to rationalise contributions by big and small lenders. Under the Paris Club reschedulings, such a technique would involve exemption of banks with exposure below a specified amount of requests to participate in new money packages. Another variant permits creditor banks to reduce their base exposure for calculating new money contributions by up to the same specified limit. The exit bonds as worked out in the Argentine case in 1987 have a fixed low interest rate and a long maturity. Finally, debt buy-back is a technique which allows debtor countries to repurchase a portion of their debt at a discount, while the remaining debt will be restructured. In the Bolivian case the buy-back operation would be negotiated between it and the creditors without resort to the secondary market and foreign exchange obtained from donor governments would be used to effect the transaction.

A Cooperative Approach

In the international debate on the debt crisis, there is a belief in the industrial countries which are mainly the creditors that the debt crisis was brought about by the bad economic policies in the indebted developing countries. Correspondingly, there is a strong voice from the developing countries and supported by objective analysts in the developed world that the root of the debt crisis can be traced to the economic policies of the major industrial countries. However, it is now accepted that the persistence of the debt crisis is dangerous to the growth of the world economy. In fact, since the debt crisis became more serious, many proposals of a cooperative nature which recognise the interdependence of world economies have been put forward. These proposals form a unique set of approaches to the debt crisis and could make a significant positive impact in the future. In this subsection, we shall consider among the numerous proposals, the Baker and Brady Plans as well as the numerous ideas on an international debt adjustment facility.

The US Government has been particularly active in promoting some form of international debt settlement. The first proposal was in 1985 by the US Treasury Secretary, James Baker after whom the proposal was designated as the Baker Plan. The Plan among others proposed that private banks should be encouraged to commit a total of $20 billion in net new lending over three years to support comprehensive economic adjustment programmes. The plan also envisaged that the 15 highly-indebted countries (including Nigeria) identified under the programme would receive an additional $9 billion net lending from the multilateral development banks in 1986–1988 in support of their market-oriented policies. Countries that wanted to participate in the scheme would however undertake IMF-supported structure adjustment programmes and implementation was to continue to be on the basis of the case-by-case approach to the debt problem. One fundamental assumption of the Baker Plan was that if the debtor countries adopted growth-oriented adjustment policies supported by new net lending by the creditor banks and the multilateral agencies, the rates of return on new lending would be so high to justify such new lending. However the assumption became unrealistic as little or no new lending took place and even countries that made positive achievements on their own were not favoured by new resource transfers. The Baker Plan was generally believed to be unrealistic because the new lending

even if it materialised would have made no visible impact because it was a small fraction of the interest payments due during the period. But the plan did ensure that the debtor countries would continue to render their obligations once it was accepted that their economies must grow in order to sustain their debt service capacity.

The Brady Plan so-named after Mr. Nicholas Brady, US Treasury Secretary which came after the Baker Plan early in 1989 contained two features of the latter in, first, maintaining the use of the case-by-case approach and second in insisting that debt relief must be accompanied by economic reforms supervised by the IMF and World Bank. But the Brady Plan differs from the Baker Plan in accepting the need for debt reduction without which credit worthiness and economic recovery would be impossible. Under the plan, the various participants have specific obligations. The creditor banks are to work with debtor countries to provide a broader range of alternatives for financial support, including greater efforts to achieve both debt and debt service reduction and to provide new lending voluntarily. The international financial institutions are expected to continue to promote sound economic policies in debtor countries, cofinance debt or debt service reduction and offer additional financial support to collateralise a portion of interest payments.

Debtor countries would be obliged to pursue sound economic policies supported by the IMF, encourage the return of flight capital which in many cases could be larger than outstanding debt as well as implement viable debt-equity swap programmes. On their part, the creditor governments are to continue to support the debtor countries through more efforts to reschedule their exposure to them, maintain export credits for debtor countries that follow sound economic reforms, reduce regulatory, accounting and tax constraints on debt reduction proposals, maintain sound economic policies, and open markets, as well as to support both the IMF and the World Bank to be in a stronger financial position under the debt reduction plan. The Brady Plan has indicated several ways to structure debt-reduction transactions. One method is a cash buyback by which the debtor country uses cash reserves (its own or borrowed from the IMF or World Bank) to repurchase some of its debt from its creditor banks at a highly discounted price. Another method is to undertake debt conversion in which some of the outstanding debt is converted into a new asset with a lower contractual debt service burden but made less risky by guarantees or collaterals. A typical example of this is the debt-equity swap which was explained earlier. The Brady Plan has been criticised mainly for relying on voluntary actions by creditor banks which have so far not achieved much debt reduction. It has been suggested that creditor banks could readily endorse the Brady Plan on paper without mâking concrete concessions in practice. There are in fact no major incentives to get the creditor banks to sell off the loans cheaply. As long as debts are being serviced these banks are prepared to hold out. Moreover, since the Baker Plan was announced, many creditor banks especially in the USA have made provisions for bad debts which is weapon against the threat of default obviously a less palatable alternative than a heavy discount. The issue still remains that future credit lines would be shaky even if the creditor banks concede to heavy loan discounts. The Brady Plan like its predecessor, the Baker Plan has become more of a source of intellectual debate than a concrete proposal to resolve the debt crisis.

Another model of co-operative settlement of the debt crisis is the proposal for an international debt adjustment facility. Many variants of this model have been proposed. A proposal by Arjun Sengupta (1989) for instance seeks to share the costs/benefits of debt adjustment among creditors, debtors, multilateral agencies and governments through negotiations which take market quotations as a guide. The discounts in the values of outstanding debts provided by creditors would be passed on to debtors as much as possible after adopting policies agreed with the IMF and in this way could experience in their economies increased investment, growth and repayment prospects. The creditor banks would accept in their books a loss which the market has induced in their assets, but in the expectation that the value of the remaining debt would increase. The proposed facility would involve three simultaneous and co-ordinated transactions. First, there would be a transaction between the creditor banks and the IMF, by which the facility would issue its own debt in exchange for a stipulated amount of the debtor country's debt held by the creditor institutions at a negotiated price provided the creditors would also write off a negotiated amount of debt. Second, there would be a transaction between the facility and the debtor country in which the discounts obtained from the creditors would be passed to a debtor having been converted into a new debt with the same repayment schedule of the principal and interest as stipulated for the bonds issued by the facility to the creditors. In this transaction, the debtor country would of course be required to adopt an IMF-supported policy package. Third, there would be a transaction between the creditors and debtor countries by which the former would increase their lending to the latter which would support increased growth of output and exports in the debtor country consistent with a sustainable level of resource transfer from the debtor country in fulfilment of its repayment obligations. Such lending would be supplemented by that of the World Bank. If the facility works out as outlined above, the real cost is borne largely by the IMF facility in the form of a contingent liability to pay if the contracting debtor country fails to meet its payment obligations to the facility. The proponent however believes that this cost is worthwhile if there is an improvement in the functioning of the international monetary system.

The main problem with the proposal for an IMF Debt Facility typified by the Sengupta variant is that it shifts the burden of co-operation to the IMF which may be considered acceptable. Ultimately, it will raise the issue of the attitude of the developed countries which would be required to contribute the bulk of the capital base for the facility and this cannot be guaranteed to be totally favourable.

SUMMARY AND CONCLUSION

This article has provided an up-to-date information on the Nigerian external debt problem to permit some assessment of the current management efforts of the debt and what other options are available for reducing the debt

burden in the future.

The typical debt management process encompasses the actions of creditors, debtors and the multilateral financial institutions. Each set of participants contains within it diverse views and interests which make debt negotiations seemingly intractable. However, recent developments suggest that the gap between the creditors and debtors could be bridged by the application of emerging market-oriented management options. Surprisingly, Nigeria's external debt profile lacks sufficient quantification. But available data strongly indicate that Nigeria's external debt problem has deteriorated rapidly since the early 1980s and is currently serious on the basis of principal debt indicators. Although Nigeria is now considered to be a high-indebted country, its debt problem is only significant to the extent that her economic performance has been disappointing in the last six years resulting in a situation of temporary credit unworthiness. Though Nigeria's poor record of economic growth in the recent past could be ascribed to factors other than the heavy debt burden, this latter problem has helped to constrain quick recovery and the potential output growth.

Among several options, Nigeria has attempted to reduce her debt burden through negotiations aimed at debt relief and debt reduction which has resulted in lower debt service payments. The principal instruments of this debt management strategy have been the embargo on external borrowing, debt refinancing and rescheduling and debt conversion in the form of debt-equity swaps. By any standard, Nigeria can be said to have only minimally applied all the tools of debt management. There is room to apply more of the traditional tools while the so-called "menu" approach throws up a whole array of other options which rely more on market transactions. The search for a co-operative and concerted solution to the international crisis has definitely received a lot of attention but it is doubtful whether we are now nearer such a solution than in the early 1980s when the debt crisis deepened. However, it is gratifying to observe that the international community has clearly recognised the dangers of the debt overhang in the poorest countries and this may ultimately induce the emergence of a viable solution.

For a country like Nigeria with a heavy debt burden, debt management at the international level has become something of a big jigzaw puzzle, but her efforts have been credible under the circumstances. The main lesson to be learnt from all these efforts is the need for debt management to be part of sound macroeconomic policy. In other words, debt management does not start only when there is a crisis. On a continuous basis, Nigeria must scientifically determine how much to borrow which should be properly related to the economy's absorptive capacity for foreign capital and ability to service the debt without experiencing external payments problems. Similarly, it is important to monitor meticulously the amount of debt. Accurate information on external debt aids its efficient management on a day-to-day basis and external borrowing strategies in the planning framework.

Table 1

NIGERIA: EXTERNAL DEBT OUTSTANDING (END OF PERIOD)
(₦'Million)

	1971–1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988[1]
Total Debt Outstanding	328.4	1,265.7	1,611.5	1,866.8	2,331.2	8,819.4	10,577.7	14,536.6	17,290.6	41,451.9	100,789.1	133,956.3
Breakdown by Source (%)												
Bilateral	58.6	16.6	25.2	25.9	28.1	1.9	1.7	2.4	2.1	2.8	2.0	2.5
Multilateral	32.8	12.2	10.2	9.7	7.8	6.0	5.4	8.7	7.4	11.3	8.7	7.5
Int. Capital Market	–	50.6	63.8	58.4	56.5	62.1	47.5	41.5	44.7	52.4	40.2	40.0
Refinanced Arrears	–	–	–	–	–	–	14.4	7.9	7.4	10.0	32.6	32.8
Unrefinanced Arrears	–	–	–	–	–	22.5	26.1	37.4	35.7	20.4	14.6	12.9
Others	8.6	20.6	0.8	6.0	7.6	7.5	4.9	2.1	2.7	3.1	1.9	4.3
Breakdown By Type (%)												
Medium/Longterm	100.0	100.0	100.0	100.0	100.0	77.5	73.9	62.6	64.3	79.6	85.4	87.1
Short term	–	–	–	–	–	22.5	26.1	37.4	35.7	20.4	14.6	12.9
Dollar Value of Debt Outstanding (US $ million)	509.9	2,163.8	2,824.6	3,444.8	3,667.7	13,124.1	14,130.7	18,034.1	17,297.5	18,631.3	23,445.1	25,901.9

[1] Figures as at September, 1988, except those of trade area which were as at December, 1988.

Source: Nigeria Federal Ministry of Finance and Economic Development, Lagos and Central Bank of Nigeria.

Table 2

NIGERIA: SELECTED ECONOMIC INDICATORS AND PRINCIPAL DEBT RATIOS
(₦'Million)

	AVERAGE 1971–1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total Debt Outstanding	328.4	1,265.7	1,611.5	1,866.8	2,331.2	8,819.4	10,577.7	14,536.6	17,290.6	41,451.9	100,789.1	133,956.3
Total Debt Service	30.4	160.8	182.9	110.4	518.5	775.2	1,335.2	2,640.5	3,718.0	2,502.2	3,590.6	8,012.5
Principal	14.7	66.1	65.7	6.2	211.3	321.2	899.6	1,856.9	2,737.5	1,515.0	1,338.8	2,878.6
Interest	15.7	94.7	117.2	104.2	307.2	454.0	435.6	783.6	980.5	987.2	2,251.8	5,133.9
GDP At Current Factor Cost	17,457.4	34,540.1	41,974.3	49,632.3	57,569.8	58,830.1	60,679.0	68,662.1	78,775.6	81,292.8	107,640.0	136,958.7
Total Exports	4,301.0	6,064.4	10,836.8	14,077.0	10,470.1	8,722.5	7,502.5	9,088.0	11,720.8	8,920.5	30,239.9	33,138.1
Total Imports	2,999.3	8,211.7	7,472.5	9,658.1	12,013.2	12,565.5	8,903.7	7,178.3	7,932.9	5,983.6	17,861.7	24,900.4
External Reserves	1,931.3	1,192.5	3,043.0	5,445.2	2,424.8	1,026.6	725.2	1,080.0	1,641.1	3,587.4	4,643.3	3,272.7
Debt/GDP (%)	1.9	3.7	3.8	3.8	4.0	14.9	17.4	21.2	21.9	51.0	93.6	97.8
Debt/Exports (%)	7.6	20.9	14.9	13.3	22.3	101.1	141.0	160.0	154.2	486.9	333.3	404.2
Debt Service Ratio (%)	0.7	2.7	1.7	0.8	5.0	8.9	17.8	29.1	31.7	28.0	11.9	24.2
Interest/Exports (%)	0.4	1.6	1.1	0.7	2.9	5.2	5.8	8.6	8.4	11.1	7.4	15.5
Reserves/Debt (%)	588.1	94.2	188.8	291.7	104.0	11.6	6.9	7.4	9.5	8.7	4.6	2.4
Reserves/Imports (No. of months)	7.73	1.74	4.89	6.77	2.42	0.98	0.98	1.81	2.48	7.19	3.12	1.58

Source: Nigeria Federal Ministry of Finance and Economic Development and Central Bank of Nigeria.

Table 3

EXTERNAL DEBT AND GROWTH IN HIGHLY INDEBTRED COUNTRIES

	Debt Outstanding, 1988		Average Annual Growth Rates, 1982 – 1988				
	Total (US $ billion)	Per cent Share	GDP	Exports	Imports	Investment	Per capita Consumption
Argentina	59.6	11.3	1.4	1.9	1.3	–2.1	–0.4
Bolivia	5.7	1.1	–1.4	–1.3	5.6	–16.7	–1.6
Brazil	120.1	22.7	4.8	4.2	–2.0	2.8	2.6
Chile	20.8	3.9	4.3	7.1	3.6	15.1	–0.8
Colombia	17.2	3.3	4.1	9.4	–1.7	–0.1	1.3
Costa Rica	4.8	0.9	3.6	1.4	8.3	9.3	2.6
Cote d'Ivoire	14.2	2.7	1.3	–1.0	–4.8	–9.0	–2.1
Ecuador	11.0	2.1	1.5	5.6	–2.3	–2.1	–2.4
Jamaica	4.5	0.8	0.7	10.8	8.8	–2.2	–0.3
Mexico	107.4	20.3	0.2	4.1	–1.0	–4.5	–1.8
Morocco	22.0	4.2	3.6	5.4	0.5	0.7	0.9
Nigeria	30.5	5.8	–0.3	2.1	–20.6	–10.1	–4.5
Peru	19.0	3.6	2.9	–1.1	–6.0	–11.9	–1.4
Philippines	30.2	5.7	–0.1	5.5	2.4	–12.0	–0.6
Uruguay	4.5	0.8	1.7	4.7	1.2	–3.4	1.0
Venezuela	35.0	6.6	1.2	1.2	–1.4	–1.6	–1.4
Yugoslavia	22.1	4.2	1.0	1.0	–1.7	0.2	0.3
TOTAL	528.6	100.0	2.6	2.9	–3.4	–1.5	0.2

Source: The World Bank, World Debt Tables, 1988 (P. XVIII)

Table 4

NIGERIAN DEBT CONVERSION STATISTICS

	AUCTION SESSIONS					
	30/11/88	29/12/88	3/2/89	31/3/89	28/4/89	23/6/89
No. of Participants	40	33	25	4	22	11
No. Fully Successful	7	17	4	3	13	7
No. Partially Successful	1	1	1	–	–	–
Total Bids ($ million)	187.8	79.6	67.0	8.0	66.2	30.2
Amount Redeemed ($ million)	40.0	30.0	25.0	3.0	33.6	29.1
Discounted Redeemed ($ million)	23.9	17.8	13.1	1.6	17.0	15.3
Discounted Redeemed (₦ million)	127.7	95.3	94.6	12.0	128.4	111.0
Applicable Exchange Rate $1 =	5.3364	5.3530	7.2476	7.5865	7.5585	7.2740
Effective Exchange Rate $1 =	3.1930	3.1765	3.7856	3.9959	3.8250	3.8125
Value of Discount ($ million)	16.1	12.2	11.9	1.4	16.6	13.9
Value of Discount (₦ million)	85.7	65.3	86.6	10.8	125.3	100.8
Average Discount for Successful Bidders (%)	42.1	40.8	46.4	47.3	48.9	48.6
Nigerian Commission ($ million)	0.6	0.4	0.3	0.04	0.4	0.4

Source: Debt Conversion Committee Secretariat, Central Bank of Nigeria, Lagos.

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